

If Vendors Are from Mars, Are Customers from Venus?

Overcoming Three Reasons Why Prospects Won't Buy Your Software

By Ann Flynn and Laura Gauci, Technology Finance Partners

New software licensing and delivery models, vendor consolidations, and uncertain economic conditions are complicating the relationship between software vendors and the IT professionals they sell to. These changes are causing many costly sales initiatives to fall short of customers' expectations.

Technology Finance Partners (TFP) conducted a survey of leading SaaS and enterprise software companies in an effort to identify what programs and initiatives vendors are investing in to improve sales effectiveness and customer satisfaction. TFP asked IT customers what specific steps vendors should be taking to improve tactical sales execution. This article benchmarks vendor initiatives against customer feedback, describes areas of alignment—or misalignment—between vendors and IT professionals, and offers suggestions aimed at narrowing this gap.

The Customer Mindset

In the course of the interview process, technology buyers provided valuable and actionable guidance on steps vendors could take toward improving sales efforts and identified specific areas where they believe vendors are falling short, illustrated in Chart 1.

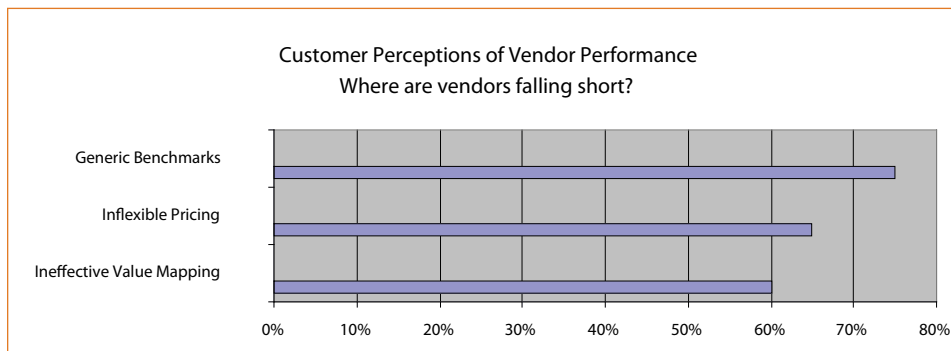


Chart 1. Customer perceptions of where vendors are “falling short” (represented as percent of respondents identifying as key area for improvement)

Survey findings illustrate three clear opportunities for vendors to increase sales effectiveness, differentiate themselves competitively, and improve relationships with existing and potential customers.

Opportunity #1: Provide quantifiable, industry-specific benchmarks

The most consistent request was for benchmark data and case studies that reflect customers' specific industries, vertical market issues, and integration into *their* IT environment. The real value of benchmark data lies in the relevant nature of the content and context.

“Know my business, craft your pitch to my business through reference accounts that align with my business, my environment, my industry,” explains Ryan Collison, CIO, Hitachi Capital America. “This helps project sponsors come to a conclusion. Vertical value stories are critical—general benchmark data are not. The sooner you can get me a reference close to my industry, the better.”

“Vendors can help by sending us case studies from our specific vertical markets; it's a key qualifying factor in our evaluation of vendors and technology,” says Navin Ganeshan, senior director of business intelligence at Network Solutions. “It sounds obvious, but

it's surprising how many vendors don't do this. Vendors just show a single customer slide with big names, but are they relevant to our needs and challenges?”

Strategies for improving benchmarks and case studies

- Tailor customer reference programs and case studies to vertical markets, customizing to address the most common business issues.
- Design proof of concepts that reach beyond technical issues to address business impacts such as cost savings and/or revenue increases.
- Stay engaged with clients to develop post-implementation case studies that demonstrate quantifiable economic value, providing “proof-positive” benchmark statistics.
- Systematize collaboration between sales and marketing to leverage the data captured.

Opportunity #2: Provide flexible, scalable pricing options that the customer can understand

TFP asked customers, “What is the biggest mistake software vendors make in their sales effort?” Approximately two thirds responded, “Confusing and inflexible pricing.”

“Vendors need to have a clear understanding of their overall pricing strategy,” says Ganeshan. “It’s amazing how many vendors are not clear on volume discounts or have a pricing strategy that doesn’t make sense.”

Dean Lane, principal at The Office of the CIO, echoes that opinion. “There is a need for comparative pricing options from all vendors, from RFP to close. Confusing pricing that does not scale does NOT help your sales effort—it makes it easy for me, the customer, to walk away.”

Vendors today are being asked to provide hosted, premise, or blended delivery options with on-demand, subscription, or perpetual licensing. Customers want flexible payment and acquisition options that map to their business initiatives. IT decision makers indicated that they look at total cost of ownership (TCO) first and foremost in their decision-making process, but as they consider moves from premise-based to on-demand offerings, that TCO comparison becomes challenging and time-consuming.

“One of the biggest challenges to sales productivity is pressure from alternative pricing models (SaaS, open source, ELA’s from mega-vendors),” says Frank Fallon, vice president of worldwide sales and business development at expressor software. “Customers are looking to equate value to pricing models based on usage and benefits gained.”

Vendors who provide customers with real-time acquisition options that provide for accounting, budgeting, maintenance, and termination flexibility will have real competitive advantage.

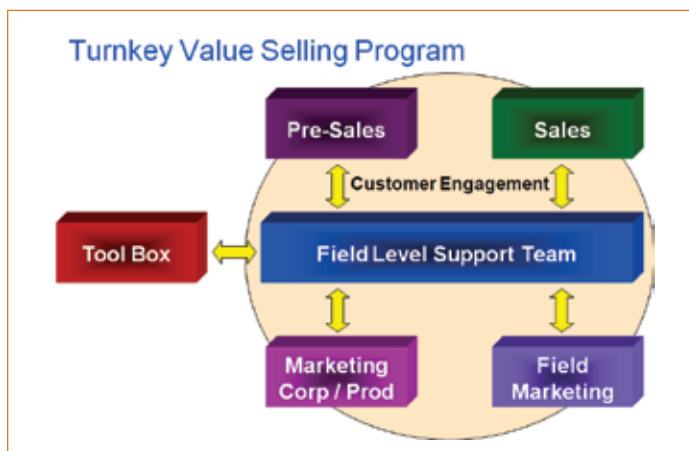


Illustration 1. Integrated consultative approach to value-based sales programs

Strategies for real-time pricing flexibility

- Effective pricing demands a fully vetted framework, not ad hoc “creativity” on a transactional basis. The framework should be developed strategically with participation across the organization.
- “Agnostic” pricing methodologies align with long-term strategic goals, ensuring margins are not cannibalized and channel conflict is minimized. Pricing and payment structures must be analyzed for impact on revenue recognition, cash flow, DSO, sales and executive compensation, and collection risk.

Opportunity #3: Map your solution’s economic value to customers’ key business initiatives

Many customers cited the lack of vendor support in the development of an economic business case or cost justification. Vendors should make it easier for customers to determine the tangible economic value associated with the purchase of technology. Too frequently when ROI, payback, or other cost justification figures are provided, they are generic in nature. “I often find myself asking for a business justification,” says Michael Mun, vice president, finance and administration at Vitria Technology, Inc. “More than 50 percent of my vendors are ill-prepared and three out of five are not prepared at all, and this concerns me. It indicates that they are not diligent vendors.”

While more than three quarters of vendors surveyed felt that the ability to sell value was critical to their success, a surprising number offered no ROI support beyond an “ROI tool,” or assumed customers would perform their own cost justification. “Sales organizations must understand the value that their products and solutions provide to their customers. They need to know the right questions to ask of their customers to determine the best fit for this value,” acknowledges Vitria’s vice president, product marketing, John Goble. “The biggest challenge we have is reflecting the value of our platform and mapping to the customer’s pain. Customers are not buying features, functionality, or technology,” adds another vendor.

“To get through the inertia, you must be selling value. ROI and TCO models and resulting metrics are meaningful competitive differentiators,” notes Ken Comée, president and CEO of Cast Iron Systems. “Sales tools are important, particularly from a value-based sales perspective. Articulating value and urgency to the customer is critical,” says Drew Del Matto, vice president, financial planning and revenue operations at Symantec Corp.

Craig Witt, former president, Americas, webMethods division of Software AG, suggests that the “ROI should be approached as a pre-sales management consulting engagement. It will require more time, and add upfront cost, but it will increase the close rate on large transactions. It’s worth the investment.” Customers agree. “Providing clear cost justification is very important, but we (the customer) must participate in the engagement. It must be a team process,” adds Ganeshan.

“Misalignment often occurs when vendors don’t listen to what the IT buyer really wants or needs,” says Eric Johnson, senior direc-

tor of IT Applications at Informatica Corp. “Some companies don’t take into account a customer’s specific business challenges. Instead, they present ROIs that are unrealistic and can’t be delivered because they are pre-determined and take a ‘cookie-cutter’ approach. The vendors that come to the table with realized examples and real-life references showing where they have delivered high value or have high levels of customer satisfaction are usually the ones on their way to making a sale.”

Strategies for meaningful demonstrations of economic business value

- Cost justification efforts must be based on data from the customer’s business. Specificity in the cost-benefit analysis is the key to providing a compelling and defensible business case for any major acquisition.
- Establish a dedicated group of subject-matter experts with technical, financial, and consulting domain expertise to provide consultative, value-based sales support. (If the required talent isn’t available in-house, consider engaging outside experts to design, develop, and launch a program.)
- Invest in tools to improve scalability and efficiencies.
- Be flexible. Provide collateral and education in a variety of forms to help customers develop their business case independently if requested.
- Maximize the investment in these programs by leveraging resulting knowledge and data with marketing to improve the overall go-to-market effort.

The Vendor Perspective

It is clear from the survey results that software vendors are pursuing a wide range of initiatives in response to market challenges. But are these initiatives resonating with their customer base? Are vendors giving customers what they want while maximizing their return on investment?

At a high level, vendors’ sales efforts appear to be in close alignment with customer requirements. The majority of vendors surveyed either had plans to implement generic programs to address these customer issues, or were formulating strategies around these efforts. However, the competitive advantage will go to vendors willing to dig deeper, understand their customers’ business drivers, and align their solutions accordingly.

Key Vendor Sales Initiatives

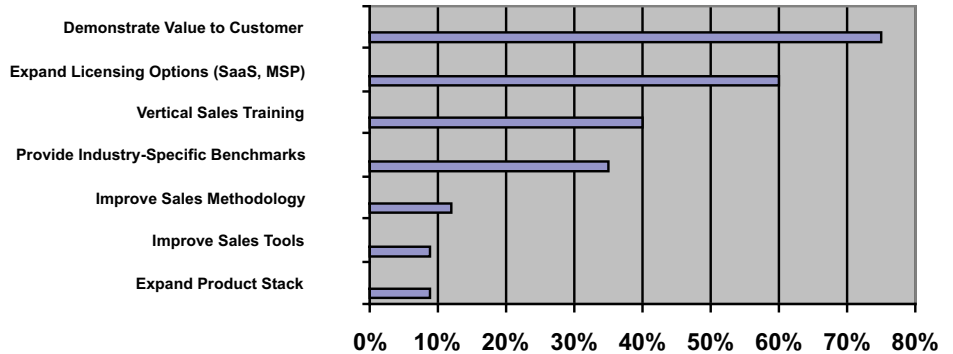


Chart 2. Vendor sales initiatives and areas of investment for increasing sales effectiveness (represented as percent of respondents who ranked these in their top three initiatives)

In Search of Alignment: Conclusion

- Message the value of your solution specific to core vertical markets, industries, or business initiatives.
- Empower your sales team with flexible pricing, licensing, and acquisition models.
- Train your sales team to become evangelists for the value of your technology.

If vendors are from Mars and customers from Venus, the planets can be moved closer through improved alignment between sales teams and IT professionals. The keys to increased sales effectiveness will be the focus, level of detail, and cross-functional integration with which vendors approach, execute, and administer benchmarking, pricing and value-based sales initiatives. Investing in these programs can lead to improved sales results, reduced sales cycles, and increased customer satisfaction.

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Survey participants represented companies ranging from development stage to *Fortune 500* organizations.